

**EXECUTIVE SECRETARIAT**  
**Routing Slip**

*NIO/Econ: fyi*  
*(HR has copy)*

*Copies for:*  
*OGI*  
*SOA*  
*EUR*  
*NEA*

TO:

		ACTION	INFO	DATE	INITIAL
1	DCI				
2	DDCI				
3	EXDIR				
4	D/ICS				
5	DDI				
6	DDA				
7	DDO				
8	DDS&T				
9	Chm/NIC		✓		
10	GC				
11	IG				
12	Compt				
13	D/EEO				
14	D/Pers				
15	D/OEA				
16	C/PAD/OEA				
17	SA/IA				
18	AO/DCI				
19	C/DPD/OIS				
20					
21					
22					

SUSPENSE

Remarks

25X1

3457 (10-1)

Copied to:

DCI/SA/IA  
DDI  
D/SOVA  
D/NESA  
D/EURA  
DD/OGI -   
D/OEA  
NIO/WE  
NIO/USSR  
NIO/EA  
NIO/NESA

25X1

~~CONFIDENTIAL~~

SENIOR INTERDEPARTMENTAL GROUP-INTERNATIONAL ECONOMIC POLICY

2:00 p.m.  
January 27, 1983  
Indian Treaty Room (Room 474, OEOB)

Executive Registry  
83-0525/1

Attendees:

Treasury  
Secretary Regan  
Marc Leland  
  
State  
Secretary Shultz  
W. Allen Wallis  
  
Defense  
Fred C. Ikle  
Stephen Bryen  
  
Agriculture  
Richard E. Lyng  
Seeley G. Lodwick  
  
Commerce  
Secretary Baldrige  
Olin Wethington  
Lionel H. Olmer

OMB  
Dr. Alton Keel  
  
USTR  
Amb. William Brock  
  
CIA  
Henry Rowen  
Maurice Ernst  
  
OPD  
Edwin L. Harper  
Roger B. Porter  
  
NSC  
Henry Nau  
Norman Bailey,  
Executive Secretary  
  
CEA  
William Niskanen

Butter Sales

The Chairman called on Deputy Secretary Lyng to give the SIG-IEP an update on the issue of butter export. Mr. Lyng reported that since the SIG-IEP had not been enthusiastic about a butter for strategic materials barter deal with the Soviet Union, the USDA has explored other options for selling the butter. One option is to sell some 50,000 metric tons of butter to the Irish Dairy Board with an option to purchase another 50,000. Most, if not all, of the 100,000 metric tons of butter would go to the Soviet Union. Restrictions on export destinations would not be acceptable to the IDE. Another option would be to sell to the New Zealand Dairy Board either with or without restrictions on sale to the USSR.

Some participants argued that we should not sell subsidized butter to the Soviet Union. This would go against credit principles we have established in the East-West economic field with our Allies. Others noted that if we fail to put this

~~CONFIDENTIAL~~  
DECLASSIFY ON: OADR



CONFIDENTIAL

2

butter into world markets, then EC countries, particularly France, are likely to make the sales, and unsold U.S. butter will continue to spoil.

Ambassador Brock stressed the importance of consultations with the EC in the event that we choose to sell either to the Irish or New Zealand dairy boards.

The Chairman concluded the discussion by suggesting that USDA explore whether New Zealand would be interested in purchasing the butter. If there is interest, then we can put the recommendation to the President. NSC, State and Defense argued against any significant subsidized butter sales at this time which might ultimately be used in the Soviet Union. In the event that the butter must be sold, then the lesser of evils would be sales to New Zealand.

Given the problem of timing (France may move to sell more butter by the end of the month and thus preclude any U.S. sales), it is not expected that the SIG-IEP will have another opportunity to discuss this issue. The Chairman called on USDA to explore a sale with New Zealand and then, in coordination with Norman Bailey, to prepare a decision memorandum for the President. This memorandum should be circulated among SIG-IEP members for comments before it goes to the President.

#### Blended Credits

On January 11, President Reagan announced a blended credit program of \$250 million direct credit and at least \$1 billion in CCC export credit guarantees. USDA has received and analyzed many proposals for use of these funds. The Chairman urged that the blended credits be reviewed at staff level by the National Advisory Council (NAC). If differences arise, then these issues should be discussed by the SIG-IEP.

#### Wheat Flour

The recent U.S.-Egyptian flour agreement has raised some European concern because the newly proposed U.S. flour sale will displace EC flour in the Egyptian market. The Europeans may take this issue to the GATT. Ambassador Brock noted that they will not have a good case against this sale.

#### Sale of Dairy Products to Egypt

Deputy Secretary Lyng gave a status report on U.S. efforts to sell butter for local currency to Egypt. The dairy products would be made available in Egypt to needy families through private grocers and government food stores at subsidized prices and therefore would not displace commercial sales by New Zealand.

CONFIDENTIAL

CONFIDENTIAL

3

The Chairman requested that all issues relating to agricultural exports where subsidies are involved should be cleared through the NAC or at a staff-level IG composed of all member agencies of SIG-IEP and if there is a disagreement by any agency, the issue should be brought to the SIG.

#### Japanese Automobile Export Restraints

The Government of Japan must decide by March 31 whether to extend their current auto export restraint to the United States for a third year. The U.S. auto industry is calling for the extension of the restraint through March 31, 1985 (a third and fourth year).

The SIG-IEP members were sympathetic to a two year extension. Ambassador Brock, however, noted that we are likely to have continuing problems unless substantial Japanese investment in the U.S. industry is forthcoming.

#### Alaskan Oil Export

The Chairman called on Under Secretary Wallis to give an update on Alaskan oil exports. New circumstances--such as large finds in the Beaufort Sea and a glut in California markets--may suggest that now is an opportune time to lift the restrictions on U.S. oil export to Japan. However, we face a challenge in getting the Congress to amend the legislation. Ambassador Mansfield has been taking the temperature of key members of Congress and will report to Allen Wallis his findings. The Chairman urged Mr. Wallis' energy security group to continue its study of this issue and to develop options for consideration by the SIG-IEP so that the President can take a decision on this issue in the near future.

The Chairman then noted the President's initiative with Prime Minister Nakasone to establish a U.S.-Japan Energy Working Group. He asked Norman Bailey to produce a paper describing the origins of this idea, proposed terms of reference, participation, schedule of meetings, etc. and report back to the SIG-IEP.

CONFIDENTIAL

Copied to:

DCI/SA/IA  
DDI  
D/SOVA  
D/NESA  
D/EURA  
DD/OGI -   
NIO/WE  
NIO/USSR  
NIO/NESA

25X1

CONFIDENTIAL

SENIOR INTERDEPARTMENTAL GROUP -- INTERNATIONAL ECONOMIC POLICY

11:00 a.m.  
January 20, 1983  
Roosevelt Room

Attendees:

Treasury

Secretary Regan  
Marc Leland

Office of Vice President

Admiral Daniel Murphy

State

Secretary Shultz  
W. Allen Wallis

Defense

Fred Ikle  
Donald Goldstein

Justice

Jonathan Rose

Agriculture

Secretary John R. Block  
Richard E. Lyng

Commerce

Lionel H. Olmer  
Donald Eiss

Interior

J. Robinson West

Energy

George Bradley

CIA

Henry Rowen  
Maurice Ernst

USTR

Ambassador David R. Macdonald  
Harvey Bale

OMB

Alton Keel  
Fred Khedouri

CEA

Martin Feldstein

OPD

Edwin L. Harper  
Roger B. Porter

NSC

Henry Nau  
Norman Bailey, Executive Secretary  
William Martin

The main topics of discussion were swapping butter for Soviet **strategic materials and the status of Kuwait** under the Minerals Lands Leasing Act.

Butter Barter

The Chairman asked Secretary Block to introduce the question of whether the USG should barter butter for Soviet strategic materials. Block noted that the USSR is in the market for as much as 100,000 tons of butter. To compete with current EC offers of subsidized butter, USDA has proposed that the Commodity Credit Corporation (CCC) and GSA barter CCC-owned butter at world market prices for

CONFIDENTIAL

DECLASSIFY ON: OADR

CONFIDENTIAL

2

Soviet strategic materials for the U.S. national stockpile. Present U.S. stocks of butter are high and such a deal could reduce the surplus by one-half.

Secretary Shultz responded by saying that the State Department is against the deal. We are in the midst of trying to develop Allied control over trade with the Soviet Union and such a move would appear inconsistent to our public and to the Europeans. This issue cannot be separated from our overall concern with Soviet behavior worldwide. It must also be recognized that the Soviet Union is trying to separate the Allies on a number of important issues. With regard to the barter deal itself, the Secretary further noted that given sufficient reserves of nickel in Canada, this is not a strategic material which we are pressed to stockpile. It would be more to our advantage to have the Soviets pay cash, thereby draining their hard currency reserves. Secretary Shultz concluded by saying that in his view there are more important issues to strive for -- such as a long-term grain agreement. However, any of these deals must be done on our own terms and within the framework of the broader U.S.-Soviet relationship. Trading with the enemy must be done in a cautious manner.

Advocates of the deal then noted that if it were possible to constrain the Allies, then we should not offer the butter. France, for example, stands ready to ship the quantities desired. Thus, we would only be penalizing our farmers for symbolic reasons. USTR argued that from a pure trading perspective this deal was desirable; however, in the end, national security interest must have priority.

Those opposed noted that the foreign policy aspects of such a deal were flawed. At a time when we want to cultivate public opinion about our approach to the Soviet Union, this would be a confusing and contradictory signal. Others noted that they were against the idea of barter. If such a deal took place, it should be on cash terms.

The discussion then focused on alternatives to the barter deal. Secretary Block, for example, noted that the Irish Dairy Board might be interested in purchasing the butter although, given the present market, it was likely that it would eventually end up in the Soviet Union. He also said butter might be sold to New Zealand.

The Chairman asked Secretary Block if he could explore these and other alternative options for selling the butter and report back to the SIG-IEP. After considering the options, the issue could be prepared for a Presidential decision.

#### Status of Kuwait Under the Minerals Lands Leasing Act

Secretary Regan called on Secretary Watt to introduce the issue as to whether Kuwait should be found non-reciprocal under Section 1 of the MLLA.



CONFIDENTIAL

3

MLLA limits the right of foreign citizens to own stock of a domestic U.S. corporation holding leases under the MLLA, if that foreign country denies "similar or like privileges to citizens or corporations of their country." The Constitution of Kuwait decrees that all natural resources are the property of the state. Foreign participation in commercial activities is permitted by law, provided that 51 percent of the stock is Kuwaiti owned. No Kuwaiti citizen owns mineral rights, and all exploration and production for oil is carried out by the Kuwait Petroleum Company. Secretary Watt indicated that the decision could go either way. On the one hand, U.S. citizens are not treated worse than Kuwaiti citizens. On the other hand, there is no reciprocity as U.S. citizens cannot own mineral rights while Kuwaiti citizens or Government can own such rights in the United States.

Secretary Shultz noted that this issue opened up a broader question of foreign government investment in U.S. companies. Governments have different interests than private citizens and corporations; therefore, it poses a different problem. At the moment, foreign government purchases are relatively minor (i.e., SOHIO, Texas Gulf and Santa Fe), and it behooves us to establish a well thought out strategy for the future. The issue of Kuwait only flags the question.

Assistant Secretary Leland noted that we have no legal powers to prohibit such purchases, and in fact, we are not even monitoring the situation from a defense, strategic or economic standpoint.

The Chairman concluded by saying that Mr. Leland should convene a group to discuss how we can strengthen the monitoring mechanism and discuss options for amending present CFIUS (Committee on Foreign Investment in the United States) legislation.

Secretary Watt indicated that he would delay making any decision on reciprocity until the study on strengthening government-controlled investment is completed.

CONFIDENTIAL